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AN ARGUMENT AGAINST GOVERNMENT RAILROADS IN THE UNITED STATES

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The people of the United States are enjoying unprecedented prosperity. The causes of the present rapid development of the country are numerous, but probably the highly developed railway transportation system has been more influential than any other force. In 1870 the railroad mileage of the United States was only 53,000; to-day it is 220,000, an increase of over 300 per cent in a generation. Although no one questions the financial success of private management of railroads, there are many persons who believe that the railroads in the United States should, in the future, be owned and operated by the government. Those who are of this opinion argue that the railroads as now managed are a private monopoly, the effects of which are detrimental to the public, and that the only method of escaping the results of private monopoly is to substitute therefor the greatest government monopoly the world has ever known.

Such a program is so revolutionary that it can be justified only by an absolute demonstration of the failure of the present method of private ownership and management of railroads to meet equitably and adequately the transportation needs of the people of the United States. Furthermore, the advocates of the change must be able to prove that government operation can be made a success.

If a radical change is to be made in present railway operation, it must certainly be made only for good reasons. Are there adequate reasons? If so, one of the reasons would naturally be high rates. As far as rates are concerned, the consensus of intelligent opinion is that rates are generally lower in the United States than in any other country, and that until very recently, at least, they have tended steadily to decline. The complaint in regard to rates is not that they are too high in general, but that they are unduly high in certain localities and that they are not uniform to all shippers, *i. e.*, that they are to some extent extortionate and to a large extent discriminatory.

How far, it may be asked, will government ownership simplify the problem of rate-making? It may, of course, be assumed that the government will be as much concerned as would any private corporation in establishing freight rates that will be reasonable and attractive to shippers generally, and at the same time remunerative and yield fair profits upon the capital invested. To one who has never considered the subject, the intricacies of rate-making will prove a painful and vexatious surprise. There are so many different and discordant elements entering into the conditions that an exact solution is impossible. It is not our purpose to explain in detail what the rules of rate-making are or should be, but rather to emphasize the inherent and accumulated difficulties involved. As observed by the Industrial Commission, in its report to Congress,¹ "the conditions are highly complex, and no simple and general rules can be made to govern in all instances. The very complexity of the problem emphasizes the necessity for intelligent direction."

The problem which a freight agent or traffic manager has to meet is so different from that which the public supposes, that it is hard to explain it in a few words. The picture that seems vividly portrayed upon the minds of most men is that of the general freight agent arbitrarily deciding upon whatever rate he deems sufficient to pay for the "cost of service" (the cost of actually moving a ton of freight a certain distance), together with enough to cover the company's taxes and the interest on the bonded indebtedness (which is generally assumed to be needlessly and culpably large), and to pay dividends on an artificial and imaginary capitalization. In reality, this sort of reasoning is putting the cart before the horse. The rate is really dependent upon conditions in the world of trade, the character of the commodity to be moved, the extent of competition from other carriers, either rail or water, and the possibilities of the development of a line of business or a section of country.

When the rate has once been made and the revenue earned, the next problem is the prosaic one—very familiar to every housekeeper—of adjusting expenses to income. The name of these expenses is legion: The wages of labor and the cost of fuel and innumerable supplies are elements in the cost of conducting transportation. The maintenance of the roadbed and stations, and of the terminal facilities in great cities—these are elements in the maintenance of the

¹*Report of Industrial Commission*. Vol. XIX, p. 359.

physical property of the road. New engines and cars and the repair of old ones make up the account called maintenance of equipment. The taxes due the state, and the interest on the bonded debt of the company, make up the company's fixed charges; charges which must be met if the corporation is to remain solvent.² Then there is still the need of setting aside funds against the depreciation of the property, the maintenance of a surplus against hard times and unlooked for expenses and emergencies; and, lastly, the raising of a net revenue for dividends, so that those who own the road may receive some return on their investment. All these varied expenses enter into the financial side of railroad management.

Very often the salvation of a road is bound up with a reduction of its cost of operations rather than in the raising of its freight rates—which latter performance is likely enough to be a sheer impossibility, and unwise, even if possible. The Lehigh Valley and the Southern Pacific roads are recent illustrations of this fact. Both of these companies found it necessary some years ago practically to reconstruct their properties, if they were to remain in the business of transportation and earn money. After periods of entire cessation of dividend paying, and by means of prodigal expenditures on improvements, they have once more taken their places in the list of properties for investment. Very often these periods of reconstruction press with crushing force on the owners of the road, the stockholders, of whom we hear so little in most of the discussions on railroad reform. Sometimes nothing else than a heavy loan will give the company the ready cash to meet importunate but just demands of shippers for increased facilities and speedier transit of freight. Sometimes there must be the heroic remedy of a receivership, a scaling down of indebtedness, and a general reorganization.

It is idle to imagine that officials or clerks in a government bureau will be able to handle such questions as we have mentioned better than the trained, experienced and well-paid officers of a railroad. Nay, it is difficult to think of their being intelligently, speedily and satisfactorily disposed of at all by any government department. Whoever has had dealings with a great government office knows the truth of these words. For reasons that are pretty well under-

²The author, in using the term "fixed charges," is aware that opinions differ as to precisely what should be included in that term. So also as to the other items of expense set out.

stood by the American people, the government possesses an unrivaled facility for drawing to itself a vast proportion of the mediocre, the lazy and the unambitious. While every government office contains a certain modicum of faithful and efficient public servants, it is usually the irony of fate that they are in a permanent minority, are persistently underpaid, and, if they have not lost heart, are seeking an early opportunity to retire from public service altogether. In short, there is a steady tendency for the competent to resign and the incompetent to remain, coupled with an appalling official inertia that tends to stifle the slightest exhibition of individual enterprise or initiative. This fatal tendency toward petrified conservatism is one of the worst features about the conduct of public business. Nor is there much hope of any marked improvement through civil service reform. Excellent as that is, it is at best a cumbersome piece of machinery, ineffective outside of certain limits. A vast improvement on the spoils system, it has completely failed to raise the average government office to anything like the level of effectiveness easily secured in any good private business establishment. Enthusiastic reformers cheat themselves into the belief that the weight of an enlightened public sentiment—the traveling and shipping public being brought in daily contact with the railroad—would compel an improvement in the conditions we have pictured. Has the weight of public sentiment ever permanently cured the lesser diseases of the body politic? Has it brought effectiveness, economy and high character into the police, street and water departments of our great cities? How often is a state capitol built within the appropriation? Have the taxpayers of New York ever checked extravagance and corruption on the Erie Canal, or taken that formerly useful artery of travel out of “politics?”

Even assuming that the tone of the public service can be made equal to that of an ordinary business house, the question still remains why government officials will be able to solve transportation problems better than private individuals. There is no magic in wearing the livery of government, and no private fund of knowledge is at the disposal of its officials. They have no peculiar facilities for reaching correct conclusions. The problems will not be a whit simplified by placing the carriers in the hands of a government bureau. The difficulties that now hang about the subject of freight rates are inherent and rest in the very nature of the service to be

performed. Unless freight rates are to be prescribed on a blind, arbitrary and unreasonable basis, without regard to the real and ever-changing conditions of the business world, the same difficulties that now puzzle traffic managers, vex merchants, and assail railroad commissions and courts, will be present as surely and as potently under public service as under private ownership.

But to the mercantile community the transfer of ownership would be a change fraught with unending and incalculable mischief. If there is one desideratum for the shipping community and the world of trade, it is a system of freight rates that shall be flexible and adaptable to the thousand and one varying conditions of business. We have lately heard so much about "stability of rates" and "maintenance of the published tariffs"—necessary and proper as these are—that we have almost forgotten that flexibility is as essential as uniformity. It is the glory as well as the weakness of our transportation system that it is peculiarly American, truly a plant of native growth, and that it has, on the whole, adapted itself marvelously well to the development and unprecedented expansion of our country. This has resulted from a remarkable power of adjustment to local needs in a land where growth and change have been abnormally rapid. New communities have received transportation facilities at times when there has not been enough business to pay the bare cost of the salaries of engineers and conductors. Industrial plants, not only those of overgrown corporations, but new ones in sparsely settled regions, have enjoyed freight rates which have enabled them to land their goods in the first markets of the world. Witness the action of the Great Northern road, ever since its inception, towards the farmers and lumbermen of the northwest. Note the policy of the Southern Railway toward the iron works of Alabama and the cotton mills of the Carolinas and Georgia.

If in place of a management of this kind, at once both sympathetic and self-interested, the merchants had been obliged to meet the stolidity of a government bureau, its circuitry of operation, the desire to postpone action till "after election," how different must have been their experience. Or, if they had been forced to deal with Congress, they might have seen the measure succeed in one house or before one committee, only to be indefinitely delayed in the other house or in committee of the whole, or played off against other interests in far-away sections of the country whose represen-

tatives demanded some *quid pro quo* for their support. They would then have realized the profound truth contained in the observation of a great modern historian, that the people's representatives and lawmakers have rarely accorded any great public privilege except under strong pressure.

Under present conditions, the aggrieved merchant may always appeal from the railroad company itself to government aid in some form. State and federal commissions stand ready to adjust rates—sometimes, indeed, with “a strong hand and a multitude of people”—and behind the commissioners are the courts. Everybody is ready and willing to move against a railroad corporation. But let the government once become the supreme monopolistic owner of the mightiest railroad in the world, and how feeble and helpless will be the shipper who pleads before some government department for relief in freight rates, having nothing but the merits of his case to invoke in his behalf.

Thus far I have been insistent only upon the main contention that, in the very nature of the case, there is nothing about government control or government officials that can promise any easy or satisfactory solution of the problems of transportation, and much to suggest the very reverse. But there are many other weighty considerations against government ownership and in favor of government supervision. One of these is the facility for offering secret rebates which must occur under any plan of government-managed railroads. From the earliest times, government officers have been peculiarly open to fraud and malfeasance, and especially so in large and highly centralized governments. Witness Russia and China across the water. Glance at our own history. During the years after the civil war the government at Washington seemed fairly honeycombed with corruption. The *Credit Mobilier* and the whisky frauds flourished, and Congress actually found it necessary to impeach a cabinet officer for misconduct. The scandals in our municipal governments are too well known to need specific mention; and in very recent years we have seen the discovery of gross frauds in our postoffices, and a shameful waste of millions of dollars voted by the people of New York for improving the Erie Canal. There is nothing about government management that gives the smallest hope that the secret rebate would not be freely used. Indeed, the ease with which favors of this kind could be granted or denied

would place in the hands of the dominant party such a power as is fearful to contemplate. And what reformation is so difficult of accomplishment as the cleansing of a great bureau or department?

There is another excellence which we Americans have thus far enjoyed with which we must part forever if the government is to run our railroads. This is the possibility of reorganizing a bankrupt and unprofitable line by scaling down its debts and charges. This process, drastic and severe as it may be upon a few individuals, has, nevertheless, proved of inestimable benefit to the country at large, and the very salvation of many of our now flourishing companies. It has enabled all parties to wipe off old scores, turn over a new leaf and start afresh; and this reduction of charges has made possible important improvements. But in Germany, where government ownership has long prevailed, much embarrassment has been felt from the inability of government to carry out such a process of reconstruction. The debts of the road once assumed by government remained as a permanent incumbrance, and have never been discharged if the earnings have been insufficient to pay the interest. This is but another illustration of the necessary rigidity and want of elasticity of any system of management proceeding by constitution and statute, it is bound to observe legal rather than commercial requirements, and is dependent on the action of hundreds of lawmakers gathered from the four corners of the land.

I am aware that some enthusiastic advocate of government railroads will insist that I am looking at new conditions through old spectacles. When the government takes hold of the transportation system of the country, there will be no difficulties about freight rates, or bonded indebtedness, or competing lines, or differentials. All these troubles will vanish like the creatures of a bad dream. The government being the sole owner of all the lines, there will, of course, be no competition. The government officials, having no private axe to grind, will act in an enlightened and disinterested manner. The government having unlimited wealth and the ability to raise any sum it needs by taxation, there will be no trouble about remunerative freight rates, or capitalization, or receiverships, or loans. All these matters will settle themselves, or can be left to the "wisdom of Congress." The difficulty about such reasoning is that it draws heavily on the credulity of the American people. For, if the government is to run the railroads, the thinking part of the

community will demand that they be run at a profit, and not at a loss, and that the freight rates shall be lower than—not merely as low as—at present. If this mighty change is to be made, some great, striking and substantial gain must be the result, or the plan is not worth the carrying out.

While the American people have great faith in representative government within lines that have been tried, nevertheless they have seen the legislative branches of their government, state and federal, severely strained of late to transact only such necessary and usual business as has fallen to their lot. In the space of seventeen years, they have lived through the enactment of three tariff acts imposing duties on imports. The passage of these measures has afforded them an opportunity of observing how Congress deals with a complicated measure affecting many rival sections of country and hundreds of hostile interests. They have witnessed the spectacle of a lower house—the “popular” branch of the national legislature—helpless in the hands of a speaker and a committee on rules clothed temporarily with almost despotic powers. They have seen the most deliberate and intelligent legislation emanating from a senate of relatively small membership; but they have also seen the senatorial committees themselves driven almost to desperation by the terrific pressure imposed upon them by irreconcilably conflicting interests working for different ends by means of powerful and effective lobbies. The result has invariably been a compromise—which every lawmaker has realized was imperfect, but which he would dread with almost pathetic timidity to see reopened for discussion and amendment.

The framing of a tariff bill, vast and vexatious as it is, is child's play beside the task of arranging a schedule of freight charges for the multitudinous cities and towns of a country extending over 3,600,000 square miles, and having commercial relations with every nation on the face of the globe. In the presence of such a duty, the most learned legislature that ever convened might well shudder in abject helplessness. From time to time, as certain individual states of our union have created state railroad commissions, they have often provided that the first duty of the new commission should be the preparation of a complete schedule of freight rates for all purely intra-state commerce (*i. e.*, commerce originating and terminating within the limits of the state). Insignificant as this labor is by the side of the making of a schedule of rates for the

nation, it is nevertheless a herculean task, and one that has proved beyond the powers of any set of commissioners that was ever got together to perform intelligently.

Yet, if government ownership is to prevail, the determination of millions of rates for the greatest mercantile nation of the globe must devolve upon some one body of persons, be their number or official designation what it may. Involuntarily we recoil at the bare thought of such unlimited powers inhering in any single body of officials under a government that calls itself free.

But the limits of this article forbid a consideration of the subject in all its details. I have tried to indicate some of the enormous difficulties involved in any system of government control and ownership of the machinery of transportation. But I have only touched upon them, and some I have not even mentioned, as, for example, the immense national debt that must be created in the attempt to purchase billions of dollars worth of railroad property, the vast issue of bonds thereby made necessary, the bitter opposition to even moderate bond issues that has been manifested by a great portion of our people, the jealousy of organized labor toward so vast and irresponsible an employer as the government, the entrance of the railroad workingman's vote into politics as the vote of a distinct faction of officeholders, the vice of a quadrennial change of management and administration at the national capital, and last, but by no means least, the probable change in the temper and tone of the federal government toward both the states and the people when made the repository of such great authority and power.³

The true line of progress is that which has grown up naturally in the past generation, since 1870, and along which we have thus far traveled safely, if not brilliantly. It is the policy to which President Roosevelt has pledged himself, which Congress has embodied in a statute, and which more than thirty states of our union have actually tried by means of railroad commissions. It is a policy of regulation and supervision to be sharply distinguished from that of ownership, just as we have long had a government supervision, both state and federal, over banks, without participation on the part of the government in the actual business of banking. It has

³No attempt has been made in this article to enter into the constitutional question of the power of the federal government to acquire railroad property and engage in the business of transportation.

not, of course, secured perfect results, nor given universal satisfaction. Very few institutions in this world have, not even trial by jury, which is probably enshrined as strongly as any purely political institution can be in the hearts of the Anglo-Saxon race. In our new rate law, we have gone to the very verge of safety in the experiment of government regulation; and common prudence demands that we give the new machinery a chance to show the kind of work it can do before we attempt further alterations. Perhaps the most serious charge against government supervision of railroads thus far is that its machinery is cumbersome and its operations slow. But it has combined the inestimable advantages of individual freedom and enterprise, coupled with responsibility and amenability to law. Whoever imagines that any system of governmental operation will be free from the defects of cumbersomeness and tardiness must be singularly guileless and unacquainted with the transaction of government business.

Should the time ever arrive when the American people will be willing to deprive themselves of such an immense field of individual effort as is now afforded by the business of transportation, it will indicate that they have materially lessened their faith in man, and have forgotten the truth embodied in the observation of Chancellor Zabriskie, of New Jersey, that "The security and continuance of a free and just government is more important than its extension or its power."